

# **The Business Side of Patent Litigation in 60 Minutes or Less:**



**Six Important Topics You Should Be Thinking About Now!**

# The Business Side of Patent Litigation in 60 Minutes or Less: Six Important Topics You Should Be Thinking About Now!

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Patent litigation as a necessary step in reaching a better business solution



**Paul Tripodi**  
Akin Gump

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Pros and cons of offshoring patent ownership – today and tomorrow



**Melody Leung**  
Ernst & Young - International Tax and Transaction Services

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**Cono Carrano**  
Akin Gump

# Patent Litigation As a Necessary Step in Reaching a Better Business Solution

**Akin Gump**  
STRAUSS HAUER & FELD LLP

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# Patent Litigation As a Necessary Step in Reaching a Better Business Solution

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## What is the role of patent litigation in your business? [THE FALLACY]

- Identify infringer
- Protect “IP” by Suing the Infringer
  - Survive PTAB challenges and litigation attacks
  - Prevail at Trial and get damages \$\$\$
  - Procure Permanent Injunction

Permanent Injunctions in ~64 cases filed in last 5 years and ~140 cases filed in last 15 years (Rough Data)

Patent Owner must still CLOSE !!

- Win Appeal
- Collect money \$\$\$
- Anticipate and foreclose any design around

## What is the role of patent litigation in your business? [THE REALITY]

- Simplistic goals (\$\$\$ judgments and injunctions) are difficult and time consuming !!
- Patent Litigation can be a powerful tool in reaching a BETTER BUSINESS SOLUTION

# Patent Litigation As a Necessary Step in Reaching a Better Business Solution

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## Examples of “Better Business Solutions” for Patent Owners

- ❑ Force Competitor to QUICKLY MODIFY infringing product (the “trailer hitch” cases)
- ❑ Use Patent Litigation JUSTIFIABLE CLOUD over Competitor’s Business
  - May help improve Patent Owner’s SALES to Sophisticated Consumers
  - May affect infringer’s ability to obtain funding or stay in business
  - May drive down infringer’s stock price or acquisition price
- ❑ Use Patent Litigation to INCREASE LONG TERM COMPETITIVENESS
  - Increase Market Share and Profitability
  - Opportunities for New (or better) Supply Agreements
  - Opportunities for joint ventures and/or sharing of technology
- ❑ Use Patent Litigation to create VALUE
  - Procure CROSS-LICENSE and eliminate RISK
  - Procure advantageous ROYALTY and create a BURDEN on the competition
  - Pressure test PATENT PORTFOLIO and FIX PROBLEMS

**Are Some “Business Solutions” good for Defendants too? Of Course !!**

# Patent Litigation As a Necessary Step in Reaching a Better Business Solution

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## Other Benefits of Patent Litigation

- ❑ Deterrence in the Marketplace
- ❑ Road Tested Patent Portfolio
- ❑ Access to New Technologies
- ❑ Obtain an “infringement” related discount in connection with acquisitions
- ❑ Make the infringer’s business undesirable to potential purchasers or business partners

## Other Benefits of an ACTIVE Patent Litigation Program with a dedicated TEAM

- ❑ Build a strong litigation TEAM (internally and externally)
- ❑ Use ongoing litigation to teach the TEAM about your business, people, and patents
- ❑ TRAIN, TRAIN, TRAIN – over the long term on multiple litigations
  - Train the TEAM to work your way – and bring talented team members in house
  - Make and learn from MISTAKES so you can avoid them in the future
  - Give lawyers opportunities to ensure their success and availability
  - Keep the TEAM together and help eliminate departures, failed partnership opportunities
- ❑ Minimize risk of ethical conflicts arising during down time
- ❑ Keep TEAM member busy on your matters – avoid losing them



# IP Alignment Considerations

July 2021

Ernst & Young LLP

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# With you today

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## **Melody Leung**

Partner/Principal, International Tax and Transaction Services - Transfer Pricing

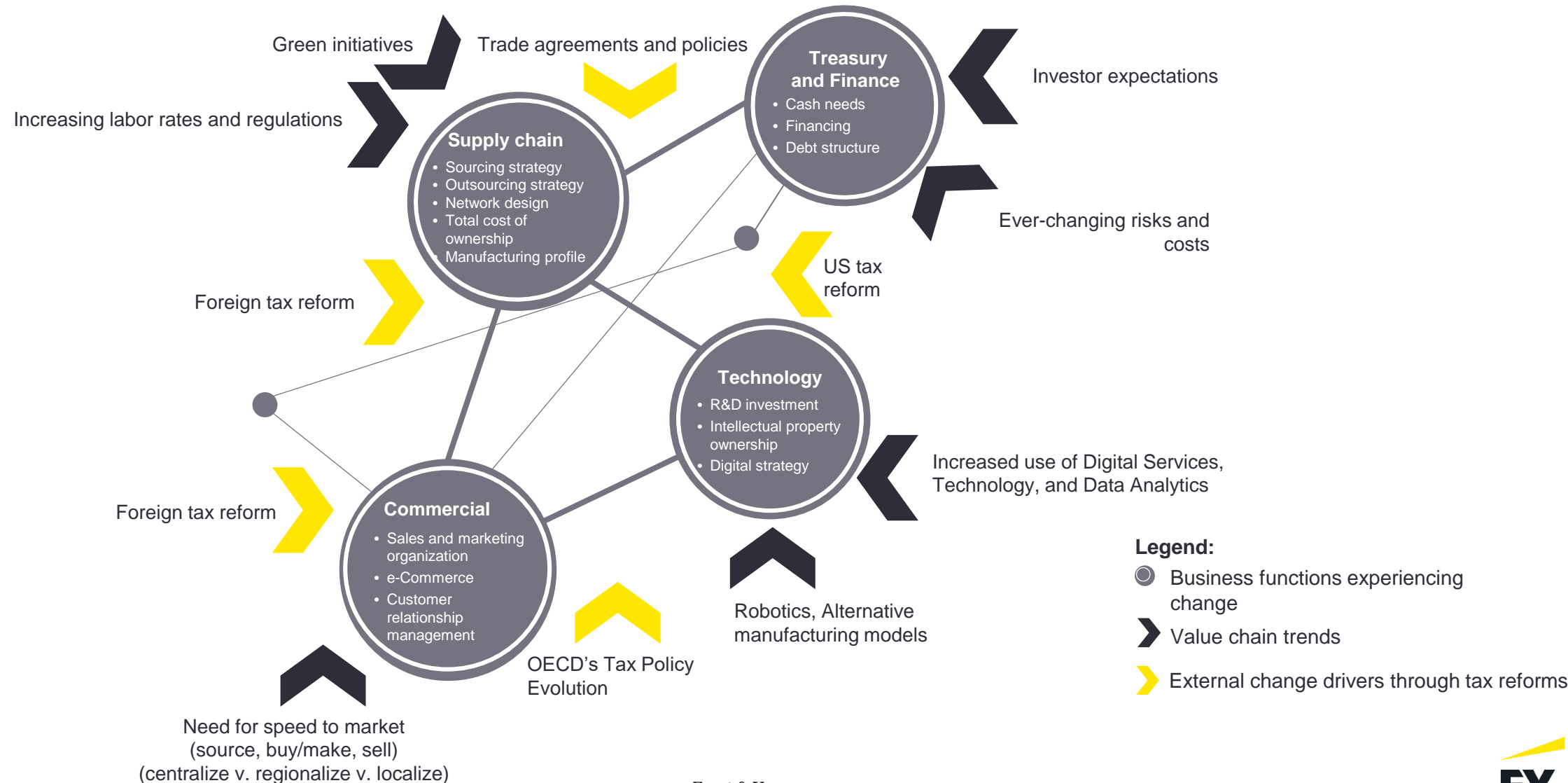
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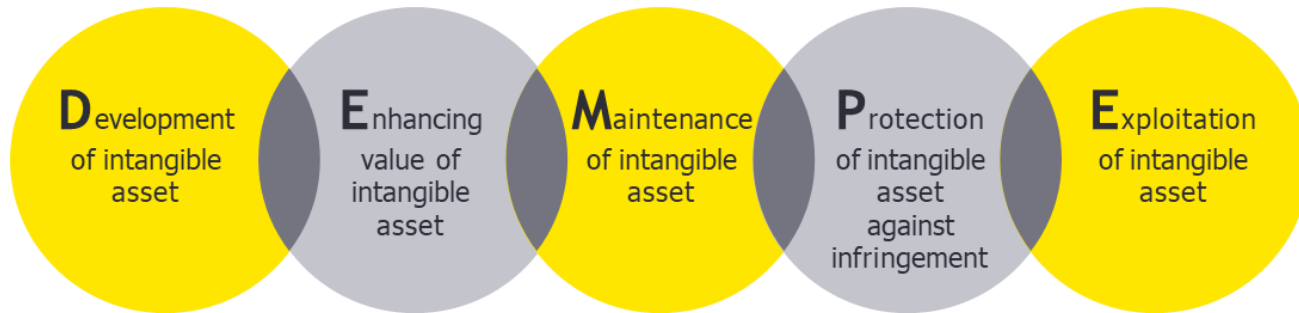
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# Business and tax trends create new paradigms for global operating models



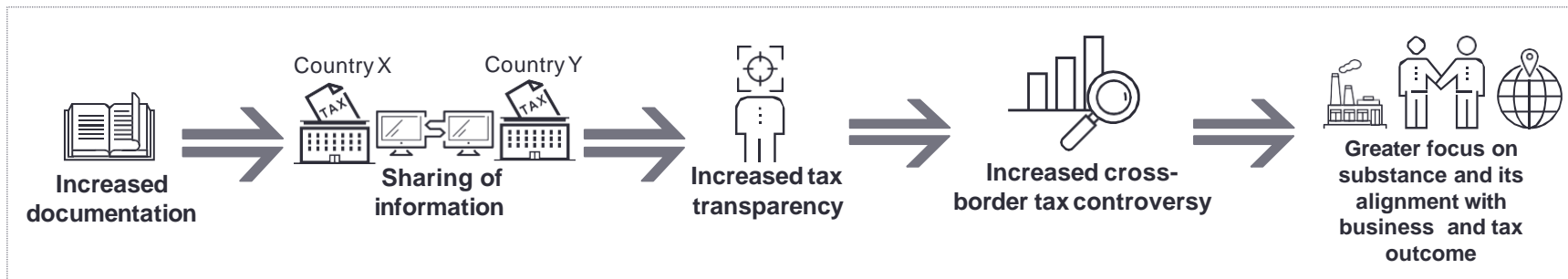
# Key IP model considerations: DEMPE + risk management, assumption and control



+



DEMPE roles could be dispersed and operate virtually impacting the sustainability of the IP model



***IP alignment based on beneficial economic ownership, not pure legal ownership of patents...  
...except for certain key considerations, including local incentives for patent ownership***

# Operating model effectiveness

Business



DESIGN OBJECTIVES



Tax



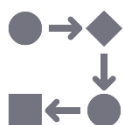
## Business strategies

Method or plan about a desired future towards a achieving mission, goal or solving a problem



## People

Organizational design, performance management, KPIs and location of employees



## Business processes

Business processes covering strategic, tactical and operational activities and decision-making



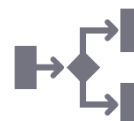
## Supply chain network

Physical locations, transport and supporting systems through which products and services are managed



## Intangible assets / IP

Portfolio of intangible assets / IP, their related DEMPE functions and risk controllers



## Transactional design

How the business transacts with third and related parties for supplies, finished goods, services and royalties



## Legal agreements and contracts

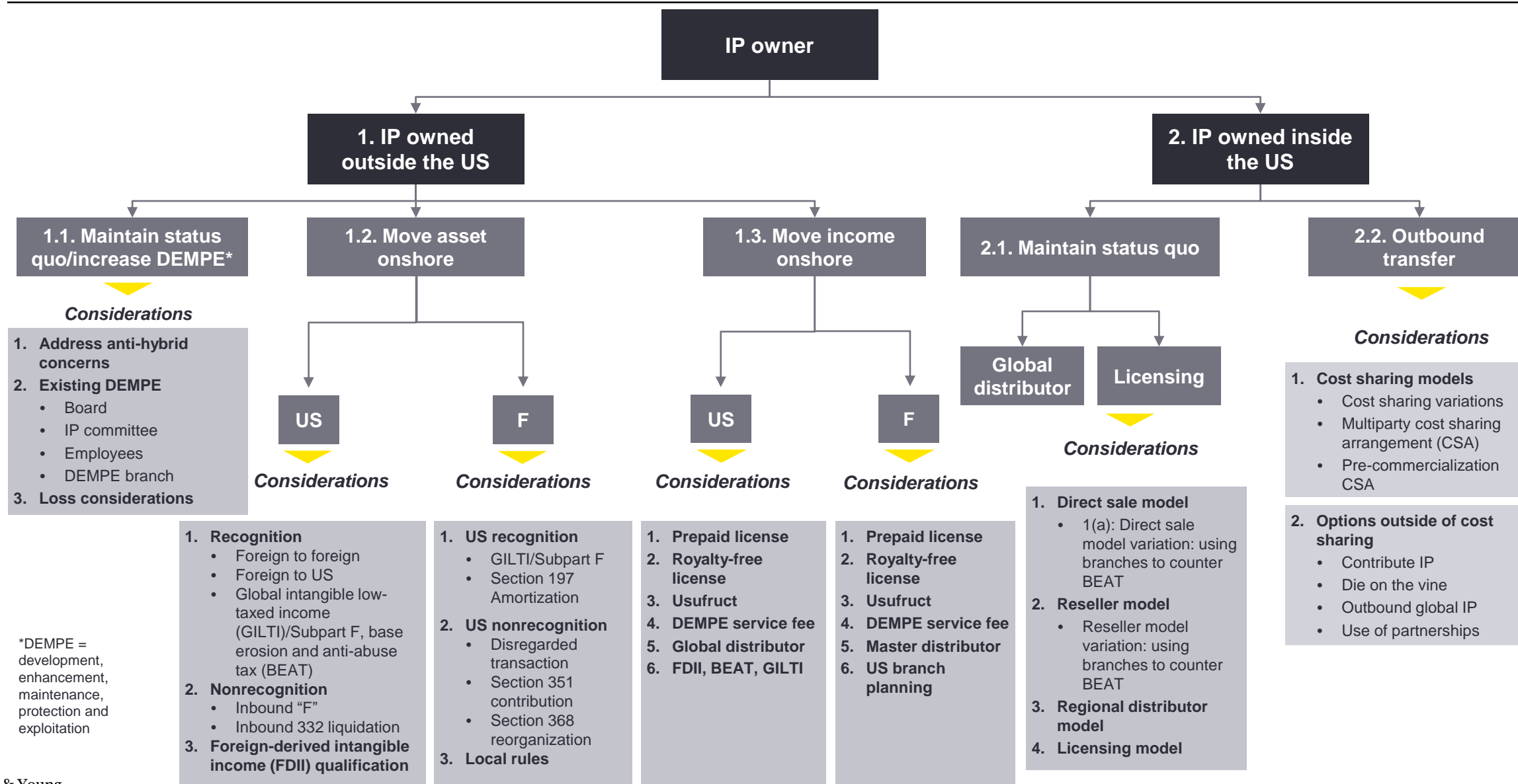
Legal relationships and agreed terms between related parties, including exclusivity of rights and also arrangements with third parties



## IT Systems

ERP system and other applications critical to operating the business and providing valuable information

# IP alignment decision flowchart



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# Pros and Cons of Litigation Funding for Both Patentees and Defendants

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Dr. Lauren Rabinovic

GLS Capital

Principal

# GLS Capital Background

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- Founded in 2018 by experienced litigation finance professionals who have invested hundreds of millions of dollars in dozens of litigation-related matters across numerous jurisdictions
- Raised approximately \$345M which is dedicated exclusively to funding complex litigation matters in North America, Europe and Asia
- One of the largest and most experienced private funds dedicated exclusively to litigation finance and one of the only funds with specific expertise and focus on financing disputes arising in the pharmaceutical industry
- Profiled in Bloomberg Law in 2020
- Chambers & Partners included GLS Capital in its 2020 ranking, which was the first year of the firm's inaugural fund
- Chambers & Partners include GLS Capital again in 2021

# What is Litigation Finance?

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- **The Litigation Finance Transaction:** Litigation finance investors provide capital to a claimholder or a law firm in exchange for an investment return based upon a legal or regulatory outcome
- **Uses of Litigation Finance:** Litigation finance is a business development and risk management tool for parties involved in litigation
- **Secured Only By The Litigation Outcome:** Investments are typically non-recourse
- **Litigation Control:** The litigation claim holders control the litigation; GLS does not control
- **Flexible Return Structure:** Capital is provided to the claim holder for litigation expenses in exchange for product commercialization proceeds, royalty payments or a portion of a jury verdict or settlement

# Benefits of Litigation Finance

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- 1. Non-Dilutive** – Investment return is paid from royalties, commercialization proceeds or jury verdict from the litigation
- 2. Balance Sheet** – Litigation expenses are moved from the claimant's to the GLS balance sheet
- 3. Non-recourse** – The only security is the commercialization proceeds of the litigated drug product
- 4. Risk Management** – Inclusion of GLS as a sophisticated risk sharing partner allows hedging of regulatory, legal and commercialization risks
- 5. Alternative Corporate Uses** – Less capital diverted to litigation expenses

# Considerations to Using Litigation Finance

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- 1. Champerty Doctrine** – Generally shifted away or abolished the doctrine
- 2. Disclosure** – Many jurisdictions do not require because financing agreement is not relevant to the underlying merits
- 3. Confidentiality** – Enter nondisclosure agreements before sharing information
- 4. Diligence** – Must be prepared to provide information and materials so that funders can evaluate merits of the claim
- 5. Privilege** – Exercise caution to avoid inadvertently waiving



# Patent Risk Management Entities and the Emerging Role of Insurance

Roberta Aufranc, RPX Insurance Services





# Patent Litigation – a Brief Primer

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- Historically, most patent litigation came from companies suing over products that they owned.
- Insurance, if available, was very expensive.
- Entities that do not make or sell products have changed the patent litigation system. These entities are known as Non-Practicing Entities (NPE's), often called patent trolls.
- Today, more than 70% of patent litigation risk comes from NPE's (do not make/sell products)
  - “Patent Trolls”
  - Individual Inventors
  - Universities

# Availability Patent Insurance



- Patent insurance has become more available and more affordable
  - Coverage available for both NPE and Operating Company litigation
  - Various companies have different appetites for NPE and Operating Company risk
  - Approximately 5-7 companies consistently offer patent infringement coverage
  - Each company has unique terms and conditions
    - Defense coverage readily available
    - Pursuit or enforcement coverage still limited, very expensive
- Coverage is excluded from most standard lines of coverage (General Liability, E&O, Cyber)
- Many companies are requiring their vendors to provide indemnification for patent litigation

# Patent Litigation



## Identifying Patent Infringement Risk

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### ➤ How insurance companies view risk, availability of insurance

- Ideal Sectors: Software, Hardware, Networking, Mobile Communication / Devices, F.I., E-commerce, Media Distribution / Advertising, Consumer Electronics, Transportation/Logistics, Auto Industry, Gaming, IT Security, Private Equity, Home Automation, AR/VR
- Limited Sectors: Semiconductor\*, Manufacturing
- Restricted Sectors: Bio-Tech\*, Pharmaceutical

# Who is at Risk for Patent Litigation

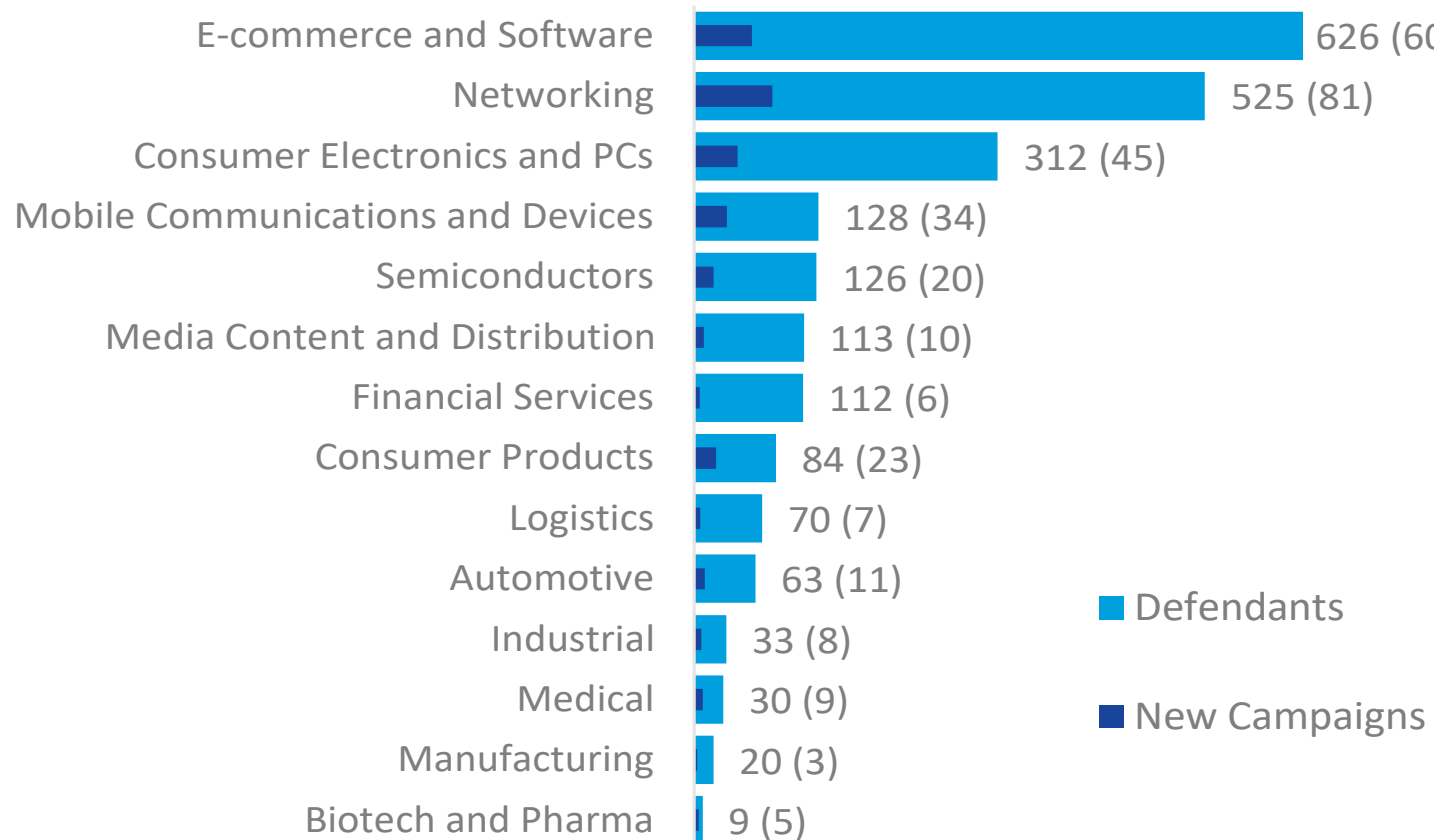
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- NPE tactics and strategies - risk level depends on a variety of factors, most importantly:
  - Revenue
  - Industry sector
  - Visibility
  - Fund raising/IPO
- Companies of all sizes are at risk
  - 300,000+ patents issued by the USPTO every year
  - Litigation alleges infringement by patent not owned by the defendant
  - Any company that makes, sells or uses technology is at risk
- Patent litigation is persistent and costly

# Patent Technologies in Litigation

Certain technologies asserted more often

## NPE Patent Litigation Cases Jul 2020 - Jul 2021

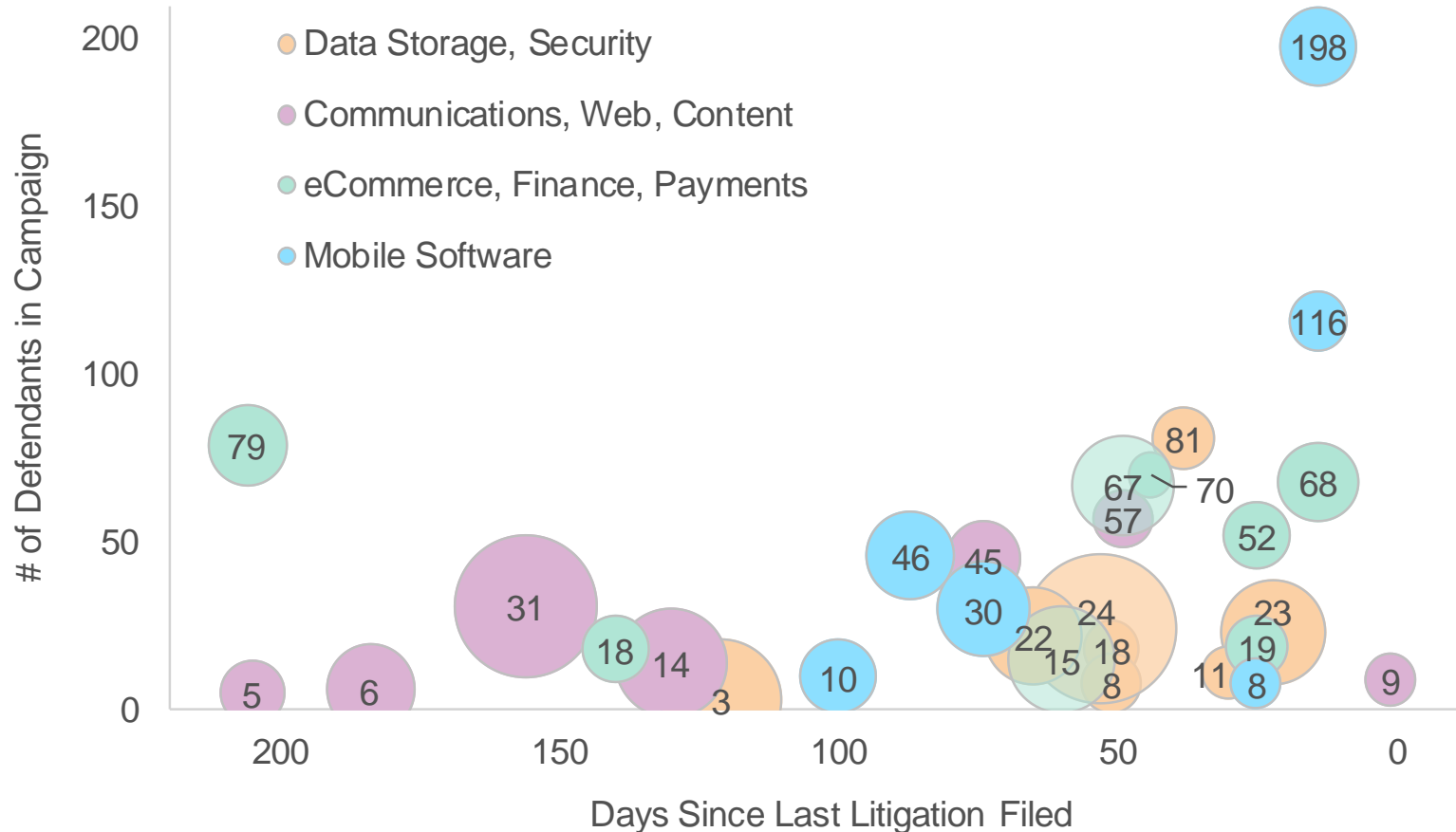


## Notes

- Some technologies continue to be more asserted more often in patent litigation
- Many defendants are sued as users of technology and are not in the sector themselves
  - E.g., software and networking patents (e.g., IoT) are often asserted against users

# Patent Litigation Campaigns

Litigation targeting various aspects of software and eCommerce



## Notes

- Each bubble is a litigation campaign
- Vertical axis and bubble number show total defendants (1 to 198)
- Bubble size shows average days in litigation (69 – 1,000+)

## Asserted Technologies

- Campaigns target users and/or providers of technology
- Strategies vary among plaintiffs and change over time

Source: RPX Research

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# Case Studies

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## ➤ Case Study: Negotiated License Ends Litigation at Fractional Cost

- RPX data and intelligence provided key negotiating ammunition to secure speedy case dismissal for our client—avoiding protracted litigation potentially costing millions of dollars with no guaranteed outcome.

## ➤ Case Study: RPX Intel Defuses Claims, Enabling Low-Cost Licensing

- Facing a lawsuit targeting its flagship product, our client obtained a license and speedy end to litigation through RPX claims management. Without RPX, our client could have paid more than two times the legal fees and settlement costs.

## ➤ Case Study: Acquisition, Imperiled by Patent Threat, Proceeds

- A software startup was about to be acquired when it received a patent assertion letter. The acquiring company insisted the threat be resolved before closing, leading the startup to seek RPX's help. RPX designed a custom insurance policy for the acquiring company, providing it the protection it needed to proceed with the deal.

# Tax and Financial Consequences of Patent Litigation and Settlements

**Keith A. Newburry – VP, Chief IP Counsel**



Edwards

# Know Your Client

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## Private vs. Public

*Settlement Proceeds and Payments  
Have Different Impacts/Benefits?*



*The Initial Settlement Term Sheet is Key*

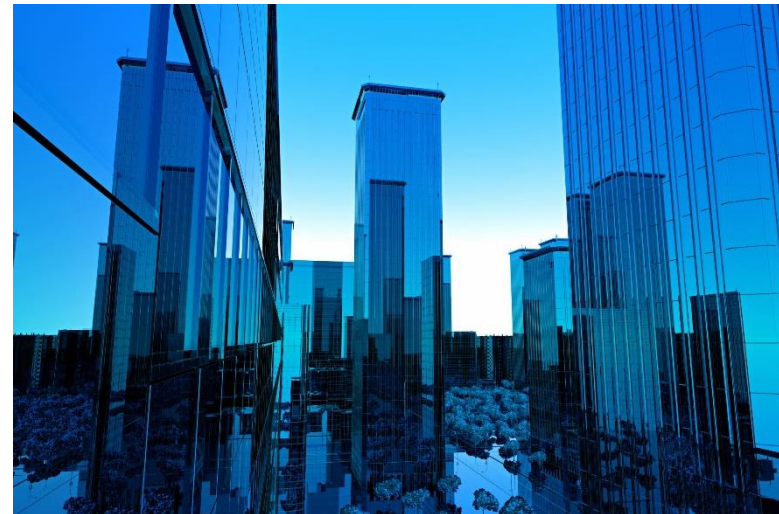


# Know Your Client

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## Two stops on your agenda

1. *Finance Leadership*
2. *Tax Leadership*



# Know Your Client

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## Private vs. Public

*Settlement Proceeds and Payments  
Have Different Impacts/Benefits?*



- **Private Companies**

- Money is money
  - Receipts and payments
  - Less sensitivity to quarterly reporting
- Will a settlement payment enhance future fund-raising opportunities?
- Which entity will pay or receive funds?
  - National tax rates
  - Capital loss/investment off-sets?

# Know Your Client

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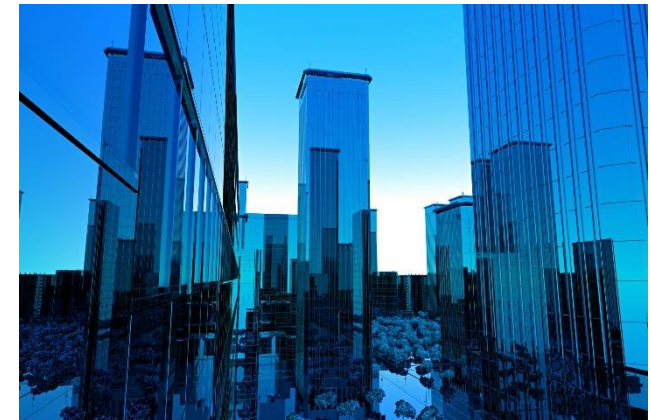
## Private vs. Public

*Settlement Proceeds and Payments  
Have Different Impacts/Benefits?*



- **Public Companies**

- Money treatments vary
  - Ongoing v. one-time payments
  - Sensitivity to quarterly reporting
- Auditors involved
- Any tax-efficient value like cross licenses?
- Which entity will pay or receive funds?
  - National tax rates
  - Capital loss/investment off-sets?





# The Power of Injunctions and Exclusion Orders

**Akin Gump**  
STRAUSS HAUER & FELD LLP

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Cono A. Carrano  
Partner, Akin Gump Strauss Hauer & Feld LLP

# Injunctions/Exclusion Orders – Powerful Remedies

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- ❖ An ITC exclusion order precludes importation of infringing products at U.S. borders to protect IP holders' market share.
  - ❖ *Certain Lithium Ion Batteries, Battery Cells, Battery Modules, Battery Packs, Components Thereof and Processes Therefor (337-TA-1159) (2021).*
    - ❖ In 2019, LG Energy filed a complaint against SK Innovation for trade secret misappropriation regarding its electric battery technology.
    - ❖ SK Innovation was planning to expand its manufacturing with a plant in Georgia to supply U.S. electric vehicle manufacturers.
    - ❖ The ITC issued an exclusion order. The parties settled shortly thereafter.
- ❖ In the U.S., an injunction can eliminate an infringing competitor – even when the IP holder is the only solution in the market.
  - ❖ Edwards Lifesciences/Medtronic Corevalve patent dispute (2014).
    - ❖ Between 2008-2014, Edwards Lifesciences and Medtronic were involved in various patent disputes regarding transcatheter heart valves.
    - ❖ In 2014, a district court granted a preliminary injunction, enjoining sales of the Medtronic product.
    - ❖ The case settled during appeal to the Federal Circuit.

# Injunctions/Exclusion Orders – Powerful Remedies (*cont.*)

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- ❖ Anti-suit injunctions: a U.S. court can enjoin an entity from enforcing judgments from foreign courts.
  - ❖ *Microsoft Corporation v. Motorola Inc.* (2012).
    - ❖ In 2010, Microsoft filed suit against Motorola in the Western District of Washington regarding Motorola's alleged breach regarding licensing its Standard Essential Patents (SEPs) on RAND terms.
    - ❖ Motorola then filed suit against Microsoft in Germany for infringement of some of the SEP patents. The German court was expected to issue an injunction.
    - ❖ On Microsoft's motion for TRO and Preliminary Injunction, the district court enjoined Motorola from enforcing any injunction the German court may have ordered.
  - ❖ *Huawei Technologies Co., Ltd v. Samsung Electronics Co., Ltd.* (2018).
    - ❖ In 2016, Huawei filed suit against Samsung in the Northern District of California (N.D. Cal.) and in China for infringement of its SEPs.
    - ❖ The Chinese court issued an injunction, enjoining Samsung from making/selling its smartphones in China.
    - ❖ On Samsung's motion, the district court enjoined Huawei from enforcing the Chinese injunction until the FRAND issues were decided in the N.D. Cal. action.

# Injunctions/Exclusion Orders – Leverage for Settlement

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- ❖ Examples of considerable settlements at the ITC:
  - ❖ *Certain Lithium Ion Batteries, Battery Cells, Battery Modules, Battery Packs, Components Thereof and Processes Therefor* (337-TA-1159) (2021).
    - ❖ ITC issued exclusion order.
    - ❖ Settled shortly thereafter – SK Innovations to pay LG Energy \$1.8 billion.
  - ❖ *Certain Mobile Electronic Devices and Radio Frequency and Processing Components Thereof (II)* (337-TA-1093) (2019).
    - ❖ ALJ recommended an exclusion order.
    - ❖ Settled shortly thereafter – Apple to pay Qualcomm \$5-6 billion.

# Injunctions/Exclusion Orders – Leverage for Settlement (*cont.*)

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- ❖ Examples of considerable settlements in district court:
  - ❖ Edwards Lifesciences/Medtronic Corevalve patent dispute (2014).
    - ❖ Preliminary injunction granted by district court, and the decision was appealed.
    - ❖ Settled thereafter – Medtronic to pay Edwards Lifesciences approximately \$1 billion.
  - ❖ *NTP, Inc. v. Research in Motion, Ltd.* (2006).
    - ❖ Injunction granted by district court and upheld on appeal.
    - ❖ Settled thereafter – RIM to pay NTP approximately \$612 million.

# Injunctions– District Court

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- ❖ Prior to 2006, granting injunctions was the “norm” when infringement was found, unless there were exceptional circumstances (*e.g.*, to protect the public health).
- ❖ However, the Supreme Court’s 2006 decision in *eBay Inc. v. MercExchange, L.L.C.* held that “well-established principles of equity” require analysis under a four-factor test.
  - ❖ Further, the Supreme Court rejected the principle that injunctions should be granted as a “general rule” and denied only in exceptional circumstances.
- ❖ The *eBay* four-factor test requires the plaintiff (IP holder) demonstrate:
  - ❖ It has suffered an irreparable injury;
  - ❖ Remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
  - ❖ Considering the balance of the hardships between the plaintiff and the defendant, a remedy is warranted; and
  - ❖ The public interest would not be disserved by an injunction.

# Exclusion Orders – ITC

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- ❖ A Limited Exclusion Order directs the U.S. Customs and Border Protection (CBP) to exclude all infringing articles imported into the U.S. by parties found to have violated Section 337.
- ❖ A General Exclusion Order directs CBP to exclude all infringing articles imported into the U.S., regardless of whether the persons importing those articles were parties to the investigation.
- ❖ A Cease and Desist Order directs the domestic violating parties to cease certain actions (*e.g.*, sales of infringing articles within the U.S.).
- ❖ Issued remedies are reviewed by the President during a 60-day Presidential Review Period, but disapprovals are rare (only five examples since 1974).
  - ❖ Review authority has been delegated to the U.S. Trade Representative (USTR).
- ❖ The USTR considers the following public interest factors:
  - ❖ The public health and welfare;
  - ❖ Competitive conditions in the U.S. economy;
  - ❖ The production of like or directly competitive articles in the U.S.; and
  - ❖ U.S. consumers.